

STATE OF MICHIGAN  
DEPARTMENT OF TREASURYRICK SNYDER  
GOVERNORANDY DILLON  
STATE TREASURER

**DATE:** February 14, 2013

**TO:** House Local Government Committee

**FROM:** Roger Fraser  
Deputy State Treasurer

**SUBJECT:** Local Government Services Bureau

Thank you for the opportunity to meet with you this morning. As we understand the purpose of this meeting, we are prepared to provide the committee with information about the Local Government Services Bureau in the Department of Treasury. Following is an outline of the various services in our Bureau and a listing of the financially troubled cities with which we are working. After the outline, you will find very brief summaries of the work we do in each of the Bureau's services. Finally, there are brief descriptions of the status of each of the cities where an Emergency Financial Manager is appointed.

Local Government Services Bureau – A division of Treasury dedicated to working with local units of government in a variety of ways. We have 67.5 current FTE's and an FY13 operating budget of \$23,573,500.

Operating Units – (Summary of Services Attached)

1. Property Services Division
  - a. Major Appeals
  - b. State Tax Commission
  - c. Property Tax Exemption
  - d. Foreclosure Service Section
2. Assessment and Certification
  - a. State Average Tax Rate
  - b. State Equalization of Property Tax
  - c. State Assessed Property (telephone, telegraph, railroads, etc.)
3. Local Audit and Finance
  - a. Accounting and Auditing
  - b. Municipal Finance
  - c. Audit
4. Office of Fiscal Responsibility
  - a. Assistance to Local Units

- b. Staff support for EM cities

Fiscally Troubled Cities

- 1. EFM Appointed
  - a. Allen Park
  - b. Benton Harbor
  - c. Ecorse
  - d. Flint
  - e. Pontiac
- 2. Consent Agreement
  - a. Detroit
  - b. Inkster
  - c. River Rouge
- 3. Others
  - a. City of Highland Park
  - b. Highland Park Schools
  - c. Muskegon Heights Schools

## **LOCAL GOVERNMENT SERVICES BUREAU**

### **Property Services Division**

#### **A. Major Appeals**

- The Michigan Department of Treasury is charged with the receipt and disbursement of the State Education Tax as well as control over the State School Aid Fund. Michigan Tax Tribunal cases involving assessment dispute challenging the assessment placed upon a Petitioner's property that involve a taxable value in contention of over \$5M or a major policy concern are flagged and labeled by the Department as "Major Appeals" for the year in which the cases are initially filed.
- The Department reviews and analyzes the cases flagged as major property tax appeals to determine if intervention is appropriate. MCL 205.744(1) authorizes the Tribunal to permit the Department of Treasury to intervene in a pending case.
- Intervention by the Department is a means to assist in the defense of the value set by the local unit and further protect its financial interest in a pending property tax appeal case.

#### **B. State Tax Commission**

The State Tax Commission was created by Act 360 of 1927 and is charged with providing general supervision of the administration of the property tax laws of the State of Michigan. The Commission is comprised of three members appointed by the Governor with the advice and consent of the Senate.

Executive Order 2009-51 eliminated the "old" State Tax Commission and the State Assessors Board and combined both into a new single entity called the "new" State Tax Commission (the Commission). This provides for more efficient administration of property tax programs and a single point of entry for taxpayers, local units, and assessors to direct questions or concerns related to assessment administration.

Following is a summary of the key components of the work of the Commission.

- **State Equalized Valuations** - The Commission reviews and approves the state equalized valuation for each of six separately equalized classifications of property for each of the 83 counties on an annual basis. The state equalized valuation is used in calculating the taxable valuations, which are the legal tax base for the levy of all authorized property taxes.
- **Assessment of State Assessed Properties** - As required by MCL 207.1 – 207.21, the Commission annually adopts assessed and taxable valuations and prepares the tax roll for railroad, telephone, telegraph, and railroad car line companies.

- Omitted and Incorrectly Reported Property - In accordance with MCL 211.154, the Commission receives, reviews and processes notifications of omitted and incorrectly reported real or personal property for the purpose of placing these properties on the assessment rolls.
- Valuation of DNR-Owned Lands - Public Act 513 of 2004 provided that, starting in 2005 the State Tax Commission shall provide a report to local governmental units of Taxable Values of certain purchased lands owned by the Department of Natural Resources.
- Education and Certification of Assessing Officers - During 2012, the State Tax Commission continued new educational programs for both the entry level assessor and Master Level assessor programs and implemented a new educational program for Advanced Level assessors.
- Administrative Duties - Prepare, approve, process and issue various forms, applications, certificates, technical guidance bulletins, memoranda, instructional training materials and manuals for dissemination to property owners, attorneys, county equalization directors, assessors and other tax officials.

Review complaints received from local assessors or individual taxpayers regarding assessment practices in local assessing units. The Commission's adopted complaint process and procedure was designed to ensure equity, fairness, and due process for both the complainant and the accused.

Oversee and maintain direct involvement in any additional property tax matters as provided by statute including investigation and arbitration of classification appeals, administration of the Tax Increment Finance Act, and review and approval or denial of applications for any of the statutory exemption programs such as Air Pollution Control, Water Pollution Control, etc.

#### C. Property Tax Exemption (PRE)

- Issued 8,401 Principal Residence Exemption (PRE) denials in 2012 increasing funds to the School Aid Fund.
- Through the BPRI, we are exploring the development of a more efficient electronic system to process PRE denials, track appeals, provide notices to taxpayers and other stakeholders, and perform other PRE Program related activities.
- Through the BPRI, we have instituted or are in the process of instituting many process changes to improve efficiencies.
- Organizing focus groups, which include various stakeholders, to improve the way we do business.

- We plan to continue offering PRE training opportunities to stakeholders (assessors, county treasurers, etc.) in 2013 and are exploring training opportunities related to other programs within the Section.
- Exploring the electronic submission of tax exemption applications received from businesses and other taxpayers to make the process more efficient, faster, and user friendly. Electronic submission would eliminate paper files.
- Significant strides internally and externally have been made in overall communication, including communication with stakeholders.
- Through improved communications, alternative work schedules, employee engagement, and other active initiatives, morale is improving and a sense of inclusion is being felt throughout the Section.
- Staff continues to be encouraged to take advantage of various training opportunities offered by the Department, Civil Service and any other relevant training opportunities that arise.

#### D. Foreclosure Services Section

- The Foreclosure Service Section (FSS) annually inspects and serves notices for approximately 6,000 real property tax forfeiture parcels for those 12 counties, which have elected the State Of Michigan to act as their foreclosing governmental unit.
- FSS also auctions more than 400 real property tax foreclosure parcels at auctions, each year, executing and recording deeds for the properties.
- FSS verifies submissions for Deferment of Special Assessment (DSA), executing liens and forwarding approved payments to local municipalities.
- FSS conducts annual audits of the DSA program via owners of record and municipality offices. FSS corresponds regarding non-compliant ownership issues, and forecloses on their liens in cases of violation.
- FSS reviews Supportive Housing applications, which have been approved by local municipalities and approves or denies Statements of Rejected Taxes submitted by county treasurers.

#### Assessment and Certification Division

- The Division is working to expand our e-equalization system for the electronic filing of state average tax rate information.

- Division staff is working with all counties in collecting and reviewing preliminary equalization data in preparation of submission to the State Tax Commission for State Equalization of approximately \$350 Billion in real and person property.
- Division staff is providing subject matter expert analysis and assistance for legislative initiatives including the elimination of the personal property tax and amendments to the qualified forest program.
- Division field staff continues to provide technical assistance and education in accurate and equitable assessment and valuation techniques to assessors and local government officials, including Boards of Review.
- Division staff is collecting information to value and assess telephone, telegraph, and railroad and carline property (State Assessed property) resulting in the collection of approximately \$60 million in property taxes.

### **Local Audit and Finance**

- A. Accounting/Auditing - We perform a variety of functions to determine that the State is receiving the appropriate amount of property based taxes.
- Track receipts by county for property-based taxes levied by the state, including state education tax, real estate transfer tax, occupied trailer coach tax, and eligible tax-reverted property tax. Reconcile receipts to state's accounting system.
  - Track receipts by municipality for industrial facility tax (IFT). Reconcile receipts to state's accounting system.
  - Audit IFT collections by municipality to ensure state receives proper share of revenue mandated by statute, and that property is returned to the ad valorem tax roll when industrial facility exemptions expire. Statewide subject matter expert on calculation and distribution of IFT.
  - Statewide subject matter expert on tax increment financing for state executive agencies, municipalities, legal and accounting professionals, and professional organizations. Frequent speaker at professional conferences on this topic.
  - Audit the amount of revenue authorities using tax increment financing capture from taxes levied for K-12 school purposes.
- B. Municipal Finance - We protect the credit of the state by monitoring the municipality's financial position and its ability to repay debt.
- Authorize municipalities to issue certain types of debt and assess their financial position to determine their ability to repay that debt. Monitor the amount of outstanding debt for municipalities

- Evaluate a municipalities plan to correct its deficit condition for a given fiscal year. Depending on the severity of the deficit, monitor the municipality's progress in implementing the plan.
  - Provide assistance to the Local Emergency Financial Assistance Loan Board in making a determination to issue emergency loans to units of local government and school districts. Prepare all necessary loan documents and conduct the loan closings.
  - Develop and publish guidance as it relates to certain types of debt for use by bond counsel and municipalities.
- C. Audit Section - We establish the standard for all financial audits of units of local government, monitor compliance with the standards, and, analyze the financial position of local units.
- Conduct, on a contractual basis, financial audits of units of local governments. The Section performs approximately 45 audits per year.
  - Conduct preliminary reviews under the current Fiscal Accountability Act
  - Develop and publish accounting/auditing guidance for use by units of local governments and certified public accountants.
  - Assess the quality of audits performed by third party CPAs.
  - Review the financial audits of all units of local governments to assess the financial health of each and to determine compliance with accounting, auditing, and state standards.
  - Monitor financial health through other data received by the division.

#### **Office of Fiscal Responsibility**

- Office established in January 2012.
- Provide statewide technical assistance, expertise and policy recommendations to local units
- Services include financial assistance, operational analyses/recommendations, monitoring corrective action plans, outreach to local units, identification of "early warning signs"( cash flow, deficits, high debt, constant TAN debt)
- Support to Emergency Financial Managers in 5 Local Units of Government:

Allen Park

EFM: Joyce Parker

Appointed: 10/25/12

Accomplishments:

- Issued short term notes to address cash flow issues,

Challenges:

- Identification of expenditure reductions
- Exploration of all options to resolve financial issues
- Restructuring the movie studio debt
- Funding OPEB liabilities

Benton Harbor

EFM: Tony Saunders

Appointed: 1/30/13 (Harris 4/1/2010)

Accomplishments:

- Successfully transitioned from Joe Harris to Tony Saunders as EFM
- Demolition of derelict properties and improvements to parks
- Successful establishment of a Public Safety Department

Challenges:

- New EFM to review all operational expenses
- Address growing list of accounts payable and record practices for A/P
- Address water plant issues
- Legislation to correct reporting structure of Department Heads
- Funding OPEB liabilities

Ecorse

EFM: Joyce Parker

Appointed: 10/30/09

Accomplishments:

- EM's assignment is essentially complete and is only working part-time
- New City Manager began on November 12, 2012

Challenges:

- Proposed agreement creates consistent transition process away from an EFM
- If agreement not adopted, a Transition Advisory Board may be necessary
- Continue discussions on interlocal agreement

Flint

EFM: Ed Kurtz

Appointed: 8/8/2012 (Brown, 11/29/11)

Accomplishments:

- Voters approved 6 mills for safety services generating \$5M annually
- 2013 adopted budget has revenue enhancements and expenditure decreases
- City prevailed on a lawsuit challenging the water/sewer increase
- City outsourced Solid Waste collection, significant savings

Challenges:

- Resolving public safety staffing



- Establish new approach to water/sewer services
- Funding/maintaining infrastructure
- Blight eradication strategies
- Funding OPEB liabilities

Pontiac

EFM: Lou Schimmel

Appointed: 10/6/2011 (Leeb, 3/2009)

Accomplishments:

- 6.5 millage for retiree health costs defeated
- Partnered w/County creating regional service for wastewater treatment
- Reduced expenditures for waste pickup and outsourced some DPW services
- secured agreement with District Court to pay some cost from Court fund

Challenges:

- Resolving public safety staffing
- Establish new approach to water/sewer services
- Funding/maintaining infrastructure
- Blight eradication strategies
- Funding OPEB liabilities